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SUBJECT: DANCING ON THE JETTY: HEALTH MINISTER OUT;
COALITION ON THE OUTS

REF: BUDAPEST 270 AND PREVIOUS

Classified By: P/E COUNSELOR ERIC V. GAUDIOSI; REASONS 1.4 (B) AND (D)

TOIL AND TROUBLE

11. (C) Summary: Toil and trouble continues within the coalition as the MSzP and the SzDSZ continue to head toward a divorce they may not want but may not be able to avoid. Prime Minister Gyurcsany's decision to dismiss unpopular Health Minister Agnes Horvath of the SzDSz has sparked a confrontation with the junior coalition partner that was predicted in coming but remains unpredictable in its consequences. Following tense exchanges in Parliament March 31, including SzDSz President Koka's criticism of the PM's "retreat from reform," the party's executive board announced that its Ministers will leave office on April 30. Although the timing does leave room for a compromise (likely involving a redistribution of ministerial portfolios), the current schism has opened the door to scenarios ranging from the MSzP governing in minority to FIDESZ's press for a "government of crisis management" to prepare for new elections. The government is focusing exclusively on the near term, but neither the MSzP nor the SzDSz appears to have a clear strategy to control or contain the schism as they continue to improvise solutions ... and contend with unintended consequences. At the moment, their differences appear irreconcilable. End Summary.

HEALTH MINISTER UNDER THE BUS

12. (C) In remarks during a closed weekend meeting of the MSzP leadership, Prime Minister Gyurcsany reportedly conceded the need for broader consultation with the party and the public, going so far as to signal his willingness to step down as the leader of the party.

13. (C) But Gyurcsany's self-criticism was only the beginning. In a long-anticipated move, the PM also announced his decision to remove Minister of Health Agnes Horvath, one of the three SzDSz ministers in his cabinet. The SzDSz reacted swiftly. Although both Horvath and SzDSz President Koka were reportedly informed of his decision just before the PM's speech, Koka charged publicly that Gyurcsany's decision violated the coalition agreement's provision for "consultations" on personnel decisions. In a tense session of Parliament March 31, Koka denounced the PM for "retreating from reform" and announced that the SzDSz would withdraw its ministers from the cabinet as of April 30 - the effective date of Horvath's dismissal. SzDSz MP Ivan Peto tells us that the party's executive board endorsed the decision at an extraordinary session on the evening of March 31, with Minister of Environment (and Koka rival) arguing for compromise with the MSzP shouted down.

GOING THROUGH WITHDRAWAL

14. (C) Although the time frame leaves room for compromise - and talk of a new distribution of ministries is already widespread - the stylistic differences between the MSzP and the SzDSz have become an open schism. Bitter SzDSz members believe the Prime Minister has sacrificed Horvath in an attempted "flight forward" to escape from pressure within the MSzP, commenting that Gyurcsany "may have won today's battle ... and lost tomorrow's war." Party elders including former SzDSz President Gabor Kuncze - who stuck by Gyurcsany in the aftermath of the PM's infamous 2006 "lies" speech - now predict that the coalition will split.

15. (C) The government is certainly acting as if that is a possibility. In a conversation on the evening of March 31, The Prime Minister's Foreign and Security Policy Advisor described the Prime Minister's Office as being in full crisis mode. The state of the coalition is the only topic of conversation at the PMO, and the Prime Minister has decided to cut short his time at the NATO Summit to return to Budapest after Thursday's dinner.

LET ME SHOW YOU THE DOOR

16. (C) Addressing a gathering of foreign diplomatic and corporate representatives March 31, FIDESZ President Viktor Orban noted that Hungary's "state of crisis" could no longer be solved by Gyurcsany's removal. He suggested that "the best of the bad options" would be a "government of crisis management" to replace the Gyurcsany government for "no more than six months" in order to prepare for new elections. He added, however, that the nation would have to "recognize the economic crisis" by taking action to reduce the budget deficit, reform the public sector, and revise the tax system.

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17. (C) If the government does not take steps toward a new election, he continued, then a referendum on health care would proceed this fall, "splitting the coalition" and causing the MSzP's public support to "evaporate."

18. (C) Curiously, other FIDESZ leaders still predict a hard road ahead despite the current disarray in the government. MP Gabor Tamas Nagy commented that the coalition would likely "stick together," positing that the SzDSz could end up either with the MFA or the Ministry of Culture and Education in exchange for the Ministry of Health. Conservative commentator Tamas Magyarics remarked that "the SzDSz has grown far too comfortable and far too dependent on its 5,000 patronage positions to walk away," and others believe that "two parties in crisis" will ultimately be able to maintain their unity if that is their only source of strength. As one Orban aide concluded grimly, "the coalition may get sicker but it may not die (yet.)"

19. (C) If it does, however, few can venture a guess as to what will happen. MSzP members had confidently maintained that they would be able to govern as a minority, but Gyurcsany has denied that this is his intention. Even if it were, he - or any other Prime Minister - would still require support from the SzDSz for the handful of votes necessary to reach a majority on a case-by-case basis. Although Koka has stated that his party will not "do FIDESZ any favors," the SzDSz will be in no hurry to cooperate with the MSzP's harder-line elements.

DEAD MAN WALKING?

110. (C) Comment: Given their respective vulnerabilities, neither the MSzP nor the SzDSz should want a divorce. That said, both appear unable to control what they've set in motion. Terminal or not - and the April 30 deadline provides time for reconciliation - the government's straits are preventing their focus on more than the next day's (bad) headlines. Both parties are down, and they are now openly

kicking each other as the bad news mounts. At this point, both Gyurcsany and Koka seem to be improvising, avoiding one catastrophe but not anticipating the next. Their running conflict has vied for space with coverage of the Afghan ammunition scandal, continued attention to alleged voting fraud within the SzDSz, and new allegations that a company owned by the PM received electricity from the state at below-market rates. As FIDESZ Faction Leader Tibor Navracsics has charged, "the government is not governing." Gyurcsany entered the MSzP meeting facing a Hobson's choice: proceed with an overhaul of the health care system in the face of widespread political criticism and public opposition; or walk back on his accord with the SzDSz at the risk of breaking an increasingly fragile coalition. He chose the latter option and is now paying the price. There will be other bills yet to come, including the costs of derailing health care reform. Although a reversal now will help dodge the first bullet, foregoing the potential savings from the reforms - estimated at up to USD 1 billion - may come back to haunt the government in the near future ... assuming it has one. End Comment.

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